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Honduras

Coffee Annual

2017

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Report Highlights:

Honduras is the largest coffee producer in Central America and the third largest in Latin America. Honduras ranks sixth globally in coffee exports by volume. Honduran coffee production in marketing year (MY) 2017/18 (Oct –Sept) is forecast at 6.5 million 60-kilogram bags, a four percent increase over MY 2016/2017. In early 2017, Lempira variety coffee, previously resistant to coffee leaf rust, was found to have rust. In April 2017, the Honduran Coffee Institute (IHCAFE) confirmed the loss of resistance of the Lempira variety against the coffee leaf rust.

Executive Summary:

Honduran coffee is grown at high altitudes, with 61 percent of farms located between 3,900 and 5,200 feet above sea level. Coffee is grown in 15 of the 18 Honduran departments. In 2016, nearly 97,000 small and medium-sized farm accounted for 89 percent of Honduras's coffee production, according to the Honduran Coffee Institute (IHCAFE).

The coffee harvest for MY 2017/2018 is forecast at 6.5 million bags (60 kg each). The estimate is a four percent increase over the previous year's harvest. The estimated amount takes into consideration the spreading risk of coffee leaf rust.

Honduran coffee plantations with the Lempira variety previously resistant to coffee leaf rust, were damaged from coffee leaf rust.

The 2017/2018 harvest is at risk of further damage from coffee leaf rust if there is not proper management of coffee plantations. Moreover, future harvests could also be at risk. IHCAFE is implementing actions to prevent the disease to spread with the rains and high temperatures.

The export forecast for MY2017/2018 is 6.3 million bags. The estimated amount takes into consideration the spreading risk of the coffee leaf rust. Exports of specialty coffee have grown due to increased demand.

Commodities:

Coffee, Green

Production:

Sixty one percent of Honduran coffee production occurs between 3,900 and 5,200 feet above sea level, 23 percent in areas from 2,900 to 3,900 feet above sea level, and the remaining 16 percent in areas 1,600 to 2,900 feet above sea level. Coffee is grown in 15 of the 18 Honduran departments, and in 210 of the 298 municipalities. In MY2015/2016 (Oct-Sept), 97,061 producers registered their production with IHCAFE. Out of those producers, 96,608 are small producers (harvesting less than 153 bags per year) or medium producers (harvesting between 153 and 766 bags per year). Together, these producers harvest about 89 percent of coffee produced in Honduras.

According to the Honduras Central Bank, in CY2015, coffee production contributed four percent to the gross domestic product.

Coffee production forecast for MY2017/2018 is estimated at 6.5 million bags. The estimate is a four percent increase over MY 2016/2017. The expected growth is due to the increase in planted area two years ago. The projected amount takes into account the risk of coffee leaf rust's effect on this harvest.

Honduran coffee farmers have been using varieties resistant to leaf rust for more than two decades.

IHCAFE developed the varieties Lempira, IHCAFE 90, and Parainema. However, in April 2017, IHCAFE confirmed the loss of resistance of the Lempira variety against the rust disease. As of April 2017, rust was present on three percent of Lempira variety plants. These incidence levels are below the level of economic damage. However, there is a risk that this will increase when the rainy season starts and/or temperatures are higher. According to IHCAFE, if the damage from rust reaches 15 percent, there could be a 20 percent reduction in production.

The 2017/2018 harvest is at risk because of rust. Many producers still need training on monitoring for rust and funding to strengthen coffee plantations before the rainy season.

The Honduran government will offer producers a new loan for around \$25,000 to deal with the new rust outbreak. However, many producers are still repaying government loans from the 2012 rust outbreak. In 2012, producers took out emergency government loans that need to be repaid by 2019.

IHCAFE is implementing actions to prevent coffee leaf rust from spreading with the rains and increasing temperatures. They have already reviewed the operational plan and budget for a preventive control of coffee leaf rust.

Another factor that will decrease production is the fact that most producers in Honduras are small. They do not have access to sufficient credit or proper training of management techniques to reduce the vulnerability of their plants to coffee leaf rust.

The probability of occurrence of the El Niño, this year with less rains and drought is predicted which will negatively impact production. Small farmers lack the resources to apply fertilizers to offset the lack of rain.

Planted and harvested areas in MY2017/2018 are forecast to increase slightly, but less than previous estimates due to coffee leaf rust.

The following institutions work to prevent and control coffee leaf rust:

- The Early Warning System for Coffee Production (SAT) was established in 2012, when Honduras had a coffee leaf rust outbreak. SAT is comprised of IHCAFE, the Secretariat of Agriculture and Livestock, Food and Agriculture Organization (FAO), the National Service of Meteorology, and the International Regional Organization for Plant and Animal Health (OIRSA). The objective of the system is to promptly inform the government, coffee producers, and specialized institutions about the potential phytosanitary threat and their respective actions of intervention. The information is also shared with countries of the region, which are also doing renewal of coffee plantations with resistant varieties. SAT issues monthly bulletins for IHCAFE and coffee producers to continue improving control measures and good agricultural practices in coffee production.
- IHCAFE's Research and Development Center is continuously evaluating the resistance level of leaf rust-resistant coffee varieties; and undertaking research of other varieties.

- Coffee producer associations and international organizations have implemented short, medium, and long-term strategies to fight coffee leaf rust since 2013. These strategies focus on producer training, information campaigns, and technical assistance.

Production of "value-added" coffee is also increasing. Large areas of coffee production are above 3,000 feet, the minimum altitude required for specialty coffee. These specialty coffees fall under different programs and certifications such as: Fairtrade/Organic (FLO/ORG), Association 4C, Organic (ORG), UTZ Certified, Rain Forest Alliance (RFA), Bird-friendly, Starbucks C.A.F.E, Fairtrade (FLO), Café Practices, Japanese Agriculture Standard (JAS), and Cup of Excellence. Exports of Strictly High Grown and High Grown and Stock Lot coffee increased slightly to 5.1 million bags in MY2015/2016 compared to the previous year.

As part of IHCAFE's efforts to market Honduran specialty coffees, six distinct coffee regions have been established. These specialty coffee varieties are not rust-resistant, but high demand keeps production up. Producers are relying on good agricultural practices to control rust.

The United States Department of Agriculture (USDA) has the largest coffee project in Honduras, implemented by TechnoServe. The project focuses on all aspects of the coffee value chain: production, processing, post-harvest, and marketing of coffee in five departments, representing about 60 percent of coffee production in the country. The project's activities aim to enhance productivity of high-quality coffee through improvements in cultivation, post-harvest processing, increasing market linkages and exports, strengthening coffee producer's organizations, and providing access to adequate financing for producers.

Consumption:

Local consumption is estimated at 40 pounds per capita. The increase in domestic consumption trends comes from the growing presence of coffee bars in shopping malls, gas stations, retail areas, supermarkets, office buildings, and hospitals. A large percentage of the Honduran population is young and is consuming more and different types of coffee drinks, e.g., "frozen" coffee. Coffee bars that provide customers with free wireless internet are attracting high school and university students as customers.

Trade:

Exports:

Honduras ranks first in Central America, third in Latin America, and sixth globally in coffee exports by volume. Post estimates the MY2017/2018 harvest will reach 6.5 million bags, with 6.3 million bags exported. Coffee trade is year-round with the heaviest volume during from March to June. Export value in MY2015/2016 was \$842 million. The average price was \$163.83 per bag.

Trade matrix with the main exports by destination:

Export Trade Matrix			
Country	Honduras		
Commodity	Coffee, Green		
Time Period	MY	Units:	60 Kg Bags
Exports for:	2016		2017
U.S.	1,164	U.S.	1,388
Others		Others	
Germany	1,405	Germany	1,677
Belgium	450	Belgium	536
Italy	354	Italy	423
France	262	France	313
Mexico	207	Mexico	247
Sweden	159	Sweden	190
United Kingdom	139	United Kingdom	166
Korea	130	Korea	156
Canada	123	Canada	146
Total for Others	4,393		5,242
Others not Listed	746		891
Grand Total	5,139		6,133

Source: MY 2016: IHCAFE's Preliminary Annual Report 2015/2016
 MY 2017: Post estimates

Informal Exports

The flow of informal exports of high quality coffee has increased to Guatemala and Nicaragua. The buyers from those countries provide a higher price than local buyers and exporters. The amount is estimated at 460,000 bags.

Imports

According to data from the Honduran Central Bank, during CY2015, imports of roasted coffee for domestic consumption originate mainly from the United States, Costa Rica and Nicaragua. Imports of soluble coffee come mostly from the United States, Colombia, Mexico, Chile, El Salvador, and Costa Rica. Post expects that competition to U.S.-supplied roasted and soluble coffee will grow. Juan Valdez Colombian coffee is now sold in supermarkets. Coffee shops at malls with local and regional chains are popular. International coffee companies sell their soluble coffee in machines located in malls and office buildings. Additionally, soluble coffee is now available in smaller containers at supermarkets, since the price of soluble imported coffee is higher than local coffee.

Stocks:

Stocks are held by exporters and roasters from the private sector. Coffee beans are stored by exporters as inventory needed to meet future contracts and are not holding stocks meant to influence price. Honduran roasters keep beans for domestic consumption throughout the year. Some stocks may be released to other Central American countries in the course of the year; depending on price.

Policy:

IHCAFE was created as a semi-autonomous institution in 1970. In 2000, the Government of Honduras (GOH) privatized IHCAFE, as a non-profit institution to increase efficiency. At the same time, the National Council of Coffee (NCC) was created, which is the highest regulatory authority in the Honduran coffee sector. NCC is the specialized institution that works in all aspects of coffee production, harvesting, and exporting. IHCAFE has the following strategic axis: a) production and productivity, b) quality of Honduran coffee, c) promotion, d) diversification and e) financing of the coffee sector. It provides guidelines and regulations for the entire coffee value chain. It establishes commercialization procedures and controls coffee production and exports. IHCAFE issues export permits to exporters, whom must register both coffee bought from producers, and coffee exported.

IHCAFE is made up of the different producer groups and associations; its Board of Directors includes the four largest coffee producer's federations and associations which are the Honduran Coffee Producers Association (AHPROCAFE), National Association of Coffee Producers of Honduras (ANACAFEH), Federation of Honduran Coffee Cooperatives (CCCH – La Central) and the Federation of Honduran Coffee Cooperatives (UNIOCOOP). The Board also has coffee roasters, exporter associations, and representatives from the Secretariat of Agriculture and Secretariat of Economic Development as members.

Honduran coffee production and exports started to slow with lower coffee prices in 1999. During the four year period of MY2000/2001 to MY2003/2004, prices continued to drop to a low of \$51.00 per quintal (100 pounds). Due to this crisis, the GOH provided loans and economic support to coffee producers. Most of the loans had a payment period of twenty years, and many Honduran coffee producers are still paying them off.

The GOH created the Law of Financial Reactivation of the Coffee Production Sector in 2003 in response to low coffee prices in order to prevent coffee producers from abandoning coffee production, avoid foreclosure on properties with high arrears, and assist producers with high levels of indebtedness. The law established a coffee producer savings fund. The collection mechanism is through a tax of \$13.25 per quintal that the exporters make when they purchase coffee from producers. The \$13.25 is comprised of three deductions as follows:

Nine dollars is used to capitalize the coffee trust fund. This amount is used for: a) repayment of loans held by banks and financial institutions used by producers and, b) paying IHCAFE loans for fertilizers, inputs, financing and seeds sold to coffee producers. IHCAFE returns either the full saved \$9 to producers that do not have outstanding loans, or a lesser amount depending on the loan repayment schedule.

One dollar is for payment of outstanding loans received by coffee producers in 1999, 2000 and 2001. IHCAFE returns this \$1 annually to producers that did not receive loans in those years.

The remaining \$3.25 is divided as follows: \$0.50 is applied to the repayment of the outstanding \$20 million loan made in 2002. Thirty six percent goes to the operation of IHCAFE and 64 percent to the National Coffee Fund. The National Coffee Fund uses these resources to build and fix roads in coffee production areas, and to buy equipment for coffee producers.

The National Coffee Fund (NCF) was also created to provide support to the coffee sector. NCF is an organization that receives funding from coffee producers. The NCF is responsible for the maintenance and construction of roads in coffee-producing areas reducing transportation costs for producers. Each municipality receives an allocation of funds for road construction in proportion to its production.

IHCAFE has the following specific programs that reach smaller coffee producers:

The Program to Support Small Producers (PAPP) offers funding to small producers for replanting a manzana of land (0.71 hectares). This program supports about 23,000 small producers, providing technology, seed varieties and technical assistance. The program aims to increase production from 5 to 45 quintals per manzana. The funds are provided by IHCAFE and the National Coffee Fund. No interest is charged.

The Emergency Program for Small Producers (PEPP) is implemented through the National Bank for Agricultural Development (BANADESA). This program has the same objectives of the PAPP Program and no interest is charged to the producer. Interest charges are absorbed by IHCAFE and the National Coffee Fund.

The following projects are also implemented: Innovative Coffee Producer, Coffee Regionalization, Coffee Rehabilitation and Productive Diversification. In addition, other programs to assist small coffee producers are: Land Title, Solar Dryers, Agroforestry and Community Forestry.

IHCAFE created the Superior School of Coffee, Centers of Research and Training, the National Center of Quality, the Coffee Quality Control Laboratory and the School of Coffee Tasters. They have six research and training centers nationwide. In 2008 the National Quality Center opened to market coffee from Honduras internationally. In 2010, the center received ISO 17025-2005 accreditation. IHCAFE also has regional laboratories for coffee cupping to support coffee producers in their product knowledge and technology.

In addition, there is the Cupping School focused on educating young Hondurans to improve long-term knowledge of coffee quality. IHCAFE's agreement with the National University of Honduras (UNAH) has established the University Technician on Quality Control in Coffee and the Coffee Business Administration degrees. Through the USDA/TechnoServe project, services of coffee cupping with IHCAFE are being provided free to producers so that they can identify the quality of the coffee they produce.

Marketing:

Honduras has grouped coffee production and quality specifications into six different regions according to differences in microclimates and soil composition. In 2004, Honduras began with the Cup of Excellence (COE). In 2005, Honduras obtained the first Geographical Indication for the country: DO Marcala Coffee. The Geographical Indication (GI) as Brand Collective “Honduran Western Coffees” (HWC) was born.

International Marketing -- The IHCAFE "Cup of Excellence" promotional event brings together the best Honduran coffees that are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee. Honduras held its “XIII Cup of Excellence” in 2016. This program encourages and maintains consistent quality coffee, promotes good practices of production and processing, promotes good stewardship of the environment and pushes for compliance with international market requirements. Regional competitions for quality and coffee fairs are taking place, and buyers join those regional events.

Honduras has a growing reputation as a specialty coffee power player. There is more participation in international fairs to promote Honduran coffee. As demand for high quality Arabica coffees increases, the commitment of Honduras represents an opportunity to build the supply chain for U.S. coffee roasters.

Production, Supply and Demand Data Statistics:

Coffee, Green Market Begin Year	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2018	
Honduras	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	303	0	324	0	338
Area Harvested	0	240	0	261	0	274
Bearing Trees	0	1020	0	1110	0	1168
Non-Bearing Trees	0	270	0	270	0	210
Total Tree Population	0	1290	0	1380	0	1378
Beginning Stocks	340	340	415	694	0	510
Arabica Production	5300	5827	5500	6287	0	6517
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	5300	5827	5500	6287	0	6517
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	20	16	20	16	0	16
Total Imports	20	16	20	16	0	16
Total Supply	5660	6183	5935	6997	0	7043
Bean Exports	4900	5137	5100	6133	0	6321
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	4900	5137	5100	6133	0	6321
Rst,Ground Dom. Consum	325	336	350	338	0	340
Soluble Dom. Cons.	20	16	20	16	0	16
Domestic Consumption	345	352	370	354	0	356
Ending Stocks	415	694	465	510	0	366
Total Distribution	5660	6183	5935	6997	0	7043

(1000 HA), (MILLION TREES), (1000 60 KG BAGS)

